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ABSTRACT

This report briefly summarizes the background, the criteria and procedures for evaluation, the findings, and the recommendations of the Tennessee School Finance Equity Study that, during the two year period ending in November, 1979, examined Tennessee's present program for financing the public schools, kindergarten through grade 12. The purpose of the study was twofold: to review and analyze Tennessee's program of financial support for the public schools in the various local school districts of the state in terms of equity for children and equity for taxpayers and to recommend changes in the state program of financial support considered desirable and necessary to help achieve equality of educational opportunity for all pupils in the public schools. Aspects of financing public education reviewed by the study include access to educational resources: costs of educational programs: fiscal need factors in relation to financing public education in urban, suburban, and rural school systems: funding of school transportation: relative local government (county) ability in taxation: fiscal capacity and effort of counties to support public education: the state and local tax system: and plans for greater equalization of financial support for the public schools. (Author/IRT)

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EQUALIZATION OF FINANCIAL SUPPORT

FOR

THE PUBLIC SCHOOLS IN TENNESSEE

A Summary Report

of

The Tennessee School Finance Equity Study, 1978-79

James E. Gibbs, Director

Nashville, Tennessee November, 1979

EA 012 284

FOREWORD

Following passage in 1977 of the Tennessee Education Finance Act, the Joint Legislative Committee on Elementary/Secondary School Finance voted unanimously to cooperate with the State Commissioner of Education in making a detailed study of the equity of the State's public school finance program. Subsequently the Commissioner applied for and received funds under Section 842, Public Law 93-380 to cover a large part of the costs of conducting the study. The strategy for accomplishing the study involved a joint effort of the Tennessee Department of Education and the General Assembly of the State of Tennessee through the Joint Legislative Committee on Elementary/Secondary School Finance.

A small temporary staff was recruited on loan or by contract from other governmental agencies to be responsible for the activities of the Tennessee School Finance Equity Study. All study activities were conducted either by the staff of the project with some assistance from regular staff within the Department of Education or through contractual arrangement with consultant authorities on school finance within and outside the State.

This report briefly summarizes the background, criteria and procedures for evaluation, the findings and the recommendations of the Tennessee School Finance Equity Study which during the two year period ending in November, 1979 examined in detail Tennessee's present program for financing the public schools, kindergarten through twelve.

The conclusions and recommendations presented in this summary are drawn from the findings of the study. They do not necessarily reflect the position or

policy of the General Assembly, the Joint Committee on Elementary/Secondary School Finance, the Commissioner of Education or other State officials or of the U.S. Office of Education. The study was intended to be helpful to all who make or help to make policy relating to the financing of the public schools in Tennessee including the General Assembly and its committees, the Commissioner of Education and other State officials, the State Board of Education, local officials, State-wide and local organizations interested in education and the public.

James E. Gibbs, Director
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CHAPTER I

INTRODUCTION

The purpose of the Tennessee School Finance Equity Study was two-fold: (1) to review and analyze Tennessee's program of financial support for the public schools in the various local school districts of the State in terms of equity for children and equity for taxpayers; and (2) to recommend changes in the State program of financial support considered desirable and necessary to help achieve equality of educational opportunity for all pupils in the public schools. Aspects of financing public education reviewed by the study include: access to educational resources; costs of educational programs; fiscal need factors in relation to financing public education in urban, suburban, and rural school systems; funding of school transportation; relative local government (county) ability in taxation; fiscal capacity and effort of counties to support public education; the State and local tax system; and plans for greater equalization of financial support for the public schools.

The present concern for equity in financing the public schools of Tennessee is not new. Rather this concern reflects progress made in three-fourths of a century of State actions directed toward achieving adequacy and equity in financing the public schools - actions toward equalization of financial resources for children and youth and toward equity for taxpayers in providing the necessary support. During all this time the great American ideals of equal opportunity including equal educational opportunity have flourished and grown. Also, the social, economic and political climates which condition application of the "equalization" principle have continuously evolved and changed. The issues of the State's responsibility to assure all its children

and youth adequate and equitable educational opportunities to enable them to live effectively in our society and to make a living will continue to concern the citizens of the State in the future perhaps more than in the past.

In Tennessee as in the other states of the Nation, education is recognized as a state responsibility. Tennessee like all other states except Hawaii has chosen to provide educational opportunities through state established local school systems and to delegate to them responsibility for the actual operation of the public schools. Within a framework of State prescribed or authorized programs, services and tax bases, this delegated responsibility includes rather broad discretion on the part of local educational agencies to make decisions on the specific educational programs appropriate to meet the needs of children and youth.

It is in delegating to local agencies the responsibility for financing the schools that a major problem in equalizing financial support arises. Approximately one-half of the financial support provided for the public schools is derived from local tax revenues, most of it unequalized by the State. This heavy dependence upon local tax revenues unequalized by the State results in unacceptably wide disparities in financial resources per pupil between districts with highest taxpaying ability and districts with least taxpaying ability (See Chart 1, page 27). The fundamental reason for the disparities is that the local taxpaying ability per child in the least able districts approximates only one-fourth the taxpaying ability of the most able districts and the State does not offset the differences in ability to pay.

A second major problem closely related to the first is the fact that the base support level in the Tennessee Foundation Program (approximately $366 per

pupil in 1979-80) is grossly inadequate to meet even average expenditure requirements of local educational agencies for the public schools. The average base expenditure level in 1977-78 in 28 sample districts containing slightly more than one-half the public school enrollment in the State amounted to $832 per pupil.

Other important equalization problems identified in the study relate to the nature of the State-local tax base used for the support of schools and to the need for more accurate measures of the relative taxpaying ability of counties. Data analyzed indicate that the State-local tax base is highly regressive (biased) against low income taxpayers, relatively unresponsive and inequitable compared with the average state.

CHAPTER II

BACKGROUND

In 1909 the General Assembly established the State's first equalization program. Ten percent (approximately $15,000) of the general education fund established that year was to be "used and expended for the purpose of more nearly equalizing the common schools (grades 1-8) in the several counties of the State " (Section 3, Chapter 264, 1909 Tennessee Public Acts). Participation in the 1909 "equalizing" fund required a minimum local tax of at least 40 cents on each $100 of taxable property and of $2.00 on each taxable poll, and local utilization of all privilege taxes for the common schools. The allocation to qualifying counties was in proportion to scholastic population and in inverse ratio of taxable property to scholastic population. Equalizing as used in the 1909 legislation approached the present usage of the term. Two basic elements of a modern equalization funding pattern were present - a required uniform local effort and allocations based on educational need and taxpaying ability.[1]

Throughout the years since 1909 the citizens of the State have continued to be concerned about more adequate and uniform educational opportunities for all the children and youth of the State. Gradually as the economy of the State grew and developed, school terms were lengthened and financial resources were increased. In practically every legislative session efforts were made to improve the adequacy and equity of financing for the public schools. There have been highlights. For example:

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[1]Benjamin H. Brown, Jr., The Fiscal Capacity and Effort of Tennessee Counties to Support Programs of Public Education, Nashville, The Tennessee School Finance Equity Study, 1978-79.

In 1925 the minimum school program providing for an eight months school term for elementary school grades (1-8) was funded on an equalization basis.

In 1947, following a comprehensive study or "survey" of public education authorized by the General Assembly in 1945 (which had been preceded in 1934 by another comprehensive survey of public education authorized by the General Assembly)[2] the State's first comprehensive twelve grade minimum foundation program was established.[3]

In 1955 the General Assembly adopted an "index of taxpaying ability" (Section 5, Chapter 136, 1955 Tennessee Public Acts) in which economic factors replaced assessed valuation and estimated valuations in determining the relative ability of each of the 95 counties to contribute a local share of the cost of the minimum foundation school program.

The Seventy-Ninth General Assembly funded the last comprehensive State survey of public education. This survey was conducted on behalf of the Tennessee Legislative Council "with a view toward long range planning of the program to be followed in the field of education."[4] The report of this study is still being used by the House Education Committee of the 91st General Assembly in reviewing overall problems relating to the public schools of the State.

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[2] Report of the Tennessee Educational Commission, prepared in accordance with Chapter 104, 1933 Tennessee Public Acts, Nashville, 1934.

[3] Public Education In Tennessee, a study of Tennessee's program of public education and suggestions for continuing its development, Tennessee Department of Education, Nashville, 1946.

[4] Public Education in Tennessee, Grades 1-through 12, a report to the Education Survey Subcommittee of the Tennessee Legislative Council, Nashville, 1957.

The Eighty-Seventh General Assembly made an important advance toward providing more equitable educational opportunities for all children and youth when it established as the policy of the State "to provide and to require the districts of the State to provide, as an integral part of free public education, special education services sufficient to meet the needs and maximize the capabilities of handicapped children" (Chapter 839, 1972 Tennessee Public Acts).

Under the Act the State Board of Education is required to provide or cause to be provided by school districts all regular and special education corrective and supporting services required by handicapped children to the end that they shall receive the benefits of a free public education appropriate to their needs.

The Eighty-Eighth General Assembly also made a major leap forward in providing more adequate educational opportunities when it declared the intent of the General Assembly to be that comprehensive vocational and technical education be made available by State and local educational agencies in grades nine through twelve (Chapter 278, 1973 Tennessee Public Acts). The State Department of Education was required to survey each county (including city and special school districts therein) to determine needed expansion of vocational and technical programs for students of high school and past high school ages and the most feasible method of meeting this need. It was provided that such programs should be made accessible to at least fifty percent of the students in grades 9 through 12 by the 1977-78 school year. All capital costs and operating costs of these programs including appropriate counseling and pre-vocational courses in grades 7 and 8 were required to be borne by the State, to the extent that appropriations are made for same. The Eighty-Eighth

General Assembly also authorized issuance of $197,000,000 as general obligation bonds of the State of Tennessee and allocation of the proceeds to the State Board of Education for capital costs of the program.

The Ninetieth General Assembly in May 1977 enacted landmark school legislation which continued improvement of the equity and adequacy of the procedures for funding public education, K-12. This legislation was "The Tennessee Education Finance Act of 1977" (Chapter 289, 1977 Tennessee Public Acts). A new "Tennessee Foundation Program" (TFP) was established in which a pupil-based, program-oriented cost differential procedure for measuring needs and costs in State funding of the public schools (kindergarten through grade twelve) replaced the former, largely teacher unit procedure. Also a new measure of the relative taxpaying ability of the Tennessee counties to provide a share of an overall 10 percent required local share of the cost of the TFP was adopted. The new measure of relative ability was based upon the assessed valuation of taxable property adjusted for property equivalents of TVA payments, replacing the economic index in use since 1955. In separate legislation provision was made outside the TFP for State funding for part of the cost of pupil transportation services.

This legislative action was based upon and followed an extensive review of the State Minimum Program as it related to the distribution of State funds to local school systems. This review was made in 1976 by a broad based Joint Legislative Committee on elementary and secondary school finance which included representatives of various groups interested in public education along with key legislators. The work of the Joint Legislative Committee was preceded by that of the Tennessee Tax Modernization and Reform Commission

(Chapter 746, 1972 Tennessee Public Acts) whose final report was issued in March 1974.

The Tax Modernization and Reform Commission considered alternatives to the existing State and local tax structure, including alternative methods of financing public school systems; the fiscal relationships between the State and local governments; methods by which the State and local tax structure could be made responsive to economic growth; and methods of distributing the State and local tax burden more equitably.[5]

Competing Interests and Countervailing Influences

Tennessee's record of concern and affirmative actions toward achieving equalization of financial resources for public education is both impressive and commendable. Nevertheless the State has not yet succeeded in achieving and maintaining full equalization of the educational resources which the people of the State apparently consider to be desirable and necessary for all children (judging by levels of expenditures over the State).

Clearly, there are and have been competing interests and concerns that have affected the level of equalization that could be achieved. For example, there is strong competition among governmental programs and services for always scarce tax resources. Sometimes interest appears to be more in lowering the tax burden or in equitably spreading this burden among taxpayers than in equalization of financial resources to meet educational needs of children. Apparently, also, there are those who in practical terms do not believe in full or extensive equalization of educational opportunities for children.

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[5] Tennessee Tax Modernization and Reform Commission Final Report, Nashville, 1974.

Sometimes in the competition between maintaining tax advantages or other special benefits such as grandfather or "guarantee" provisions and achieving equalization of educational opportunity, the latter has been the loser.

In some cases, it seems preferable to push upon local governmental agencies the hard task of providing urgently needed educational funding rather than to increase State taxes. Such actions impose an unequal burden upon local taxpayers even though the benefits to children might be reasonably uniform, e.g., the mandated uniform local salary supplement for teachers since 1965.

Sometimes maintaining or extending local decision making concerning tax revenues and local retention of such revenues may seem preferable to levying taxes at the State level and equalizing educational services. For example, in the Local Option Revenue Act of 1963 local governments were permitted to impose local sales taxes even though a Legislative Council Committee study the previous year made it clear that locally imposed levies would produce relatively lower per capita revenues to support governmental services (education and welfare) in low income areas than in high income areas.[6] Gradually thereafter, the level of equalization in relation to total expenditures for instructional programs began to decline.

Clearly the fundamental question now, as always, is: "Where to find, and how to compete for the funding that may be needed to equalize financial resources for pupils among the school districts."

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[6] Tax Structure Study 1962, State of Tennessee, Legislative Council Committee, Nashville, 1962.

CHAPTER III

CRITERIA AND PROCEDURES

The guidelines and procedures used in developing the analyses and evaluations in the Tennessee School Finance Equity Study are discussed in this chapter.

Criteria For Evaluation

The criteria for evaluation follow.

Adequate Educational Programs. The level of educational programs and supportive services and the reasonable costs thereof to be funded on an equalization basis should be that which the State considers to be adequate to assure equal educational opportunity for all pupils enrolled in the public schools of the State. In the absence of formal determination by the State of an adequate educational program and the costs thereof average expenditures per pupil in the State served as a reasonable but conservative standard of adequacy for use in this study. A more appropriate goal for achieving equalization of educational opportunities throughout the State would be to use the 75th to 80th percentile of expenditures since it represents the educational resource level that is considered desirable and necessary by the school districts that are most able to pay. The more conservative average educational expenditure per pupil level was chosen for this study, however, since it does reflect the practical middle ground of the year to year educational resource adequacy decisions being made by citizens of the State in light of tax bases now available (at both the State and school district levels).

Comprehensiveness of Program. The financial support plan should be designed to include all necessary and required instructional program, supportive

services and facility costs. These costs should include, but not be limited to, costs for: (1) regular educational programs, special educational programs, vocational education programs, and guidance and counseling programs; (2) pupil transportation and operation and maintenance of facilities; and (3) capital outlay and debt services for school facilities.

Cost Variations. In determining relative financial need the financial support plan should make appropriate provisions for: (1) identifying pupils with varying educational needs; (2) taking these needs into account in the amounts provided and expended for appropriate educational programs, supportive services and facilities; and (3) taking into account variations among local agencies in necessary costs for providing equivalent educational services due to such factors as sparsity, density, the socio-economic composition of the population, and costs of resources.

Relative Financial Ability. The public school finance program should assure that the financial resources expended for educational programs, supportive services, and facilities for pupils within the State is a function of the wealth of the State as a whole rather than of the wealth of the local educational agency in which the pupils happen to reside. To determine the sharing of educational costs between the State and the local educational agencies the State should utilize equitable measures of the relative taxpaying abilities of the local educational agencies. Also, the State and local educational agencies should apply procedures to assure uniformity in property assessments against which taxes for education are levied.

Tax Support. The public school support program should be financed by a tax system that is equitable, efficient, and productive and that contributes to the economic development of the State.

Educational and Financial Decisions. The plan for financing public schools should encourage citizen interest and participation in the education decision-making process.

Educational Efficiency. The financing plan should encourage efficiency in the size and organization of schools and school districts and in the delivery of educational programs and supportive services as a means of promoting equality of educational opportunities.

Evaluation and Further Planning. The financing plan should include systems and procedures for evaluating the degree to which its objectives are being achieved including, but not limited to, achieving equality of educational opportunity and procedures for planning further improvements.

Procedures

Some important procedures utilized in the study are discussed below.

The Analysis of Educational Resource Disparities Among School Districts. In order to analyze disparities in educational resources among school districts of the State it was necessary to decide how the educational resources were to be measured as well as with what standard they should be compared. After consideration of alternatives and taking into account Tennessee's program cost differential system for allocating funds to meet pupil needs in various grade levels and service area programs, this study utilized cost per pupil as the basis for comparing financial resources for programs. Costs per pupil ADA and per weighted pupil were used as measures for comparing educational resources among school districts. In analyzing the total support program costs for 1977-78 total current revenues were used (See Chart I, page 27). In analyzing

and comparing TFP instructional program costs (and State support therefor) current operating expenditures other than pupil transportation and school food services were used (Chart II, page 28). Pupil transportation was analyzed on the basis of pupils transported.

Computer Simulation. A Tennessee School Finance Decision Process (computer simulation model) adapted and further developed for use in Tennessee from a general model developed by the National Education Finance Project was used to simulate the consequences of a series of alternative decisions that might be made in regard to financing the public schools. The Tennessee School Finance Decision Process is essentially a school finance planning system. This product of the School Finance Equity Study will continue to be available for use after the current study is completed. For this study it was used to simulate a number of alternative solutions to school finance equity problems, one of which is included in this report (Chart III, page 29).

CHAPTER IV

SUMMARY OF FINDINGS

This chapter briefly summarizes the findings of the study relating to (1) the patterns of the total financial support system for the public schools - local, State and federal; (2) important characteristics of the Tennessee Foundation Program, the pupil transportation program and the capital outlay program; and (3) the State-local tax structure.

The Total Support Program for the Public Schools

Overall the financial support for the public schools, kindergarten through grade 12, is derived from a combination of local, State and federal taxes. Other than federal assistance (approximately 14 percent of the total current operation costs) primary support for the schools is provided jointly by the State and the 95 counties. Supplemental funds are provided also by 37 cities and 16 special school districts that operate schools. State-wide, almost one-half of the State-local funds for the regular operation of the public schools is provided by the State. The remainder is provided locally. Variations in the amount of resources per pupil provided by the State-local program of financial support in the various school districts constitute a major focus of this study.

The primary source of State funds for the current instructional program costs of the public schools is the Tennessee Foundation Program (TFP), which is funded overall 90 percent by the State and 10 percent locally by the counties. The TFP represents approximately 49.2 percent of the total current instructional program expenditures excluding pupil transportation and food services (See Table 1, page 30).

In addition to the State share of the TFP, State categorical funds (approximately 4 percent of current operating costs) are provided for: Vocational/Technical Education, Area Vocational Schools, Textbooks, Educational Television, Driver Education, Sick Leave for Teachers, Pupil Transportation and School Food Services.

Special schools or school programs for the blind, deaf, deprived and neglected children and the York Institute are operated directly by the State. Administrative, leadership and supervisory services, retirement and social security contributions for personnel are provided at the State level also.

State financial support for pupil transportation is based on pupils transported and square miles served and is outside the TFP. Overall, State support provided in 1977-78 only approximately 35 percent of actual cost of transporting pupils. The remainder came from local tax sources unequalized by the State.

State capital outlay funds are allocated to local school districts annually on an equalizing basis, that is, proportionately larger amounts per pupil are distributed to school districts in counties with least local taxpaying ability as compared to counties with highest local taxpaying ability. In 1977-78 the amount was $11,904,600 which represented approximately 11 percent of the total amount spent by LEA's for capital outlay projects exclusive of vocational education. The Comprehensive Vocational-Technical Education Act of 1973 provided that all capital costs for vocational-technical education facilities would be borne by the State. An amount of $197,000,000 from the sale of State bonds authorized in 1974 was added to a previous appropriation

of $7,500,000 for this purpose. Thus far a total of 183 new vocational-technical facilities plus 7 projects involving equipment only have been funded.

County-wide taxation provides the basic local support for public schools. County tax revenues for current operation of the schools is apportioned among the LEA's therein on the basis of WFTEADA for the current school year. County-wide tax revenue is derived from: property taxes, approximately 63 percent; local option retail sales taxes, 35 percent; and miscellaneous county taxes, 2 percent.

In addition to receiving from the counties a full proportionate share of county taxes for schools, the cities and special school districts therein raise additional funds from local tax sources. Approximately 83 percent of the local support for the public schools is derived from county-wide tax sources. Another 13 percent represents additional funds from local tax sources raised by the cities and special school districts and the remaining 4 percent is derived from miscellaneous local revenue.

The Tennessee Constitution provides for classifications of property for tax purposes. Real property is required to be assessed: farm and residential at 25 percent of value, industrial and commercial at 40 percent, public utilities at 55 percent. Tangible personal property of individuals is assessed at 5 percent of value, however, there is a $7,500 exemption. Other personal property is assessed: commercial and industrial 30 percent and public utilities 55 percent.

The State places no limit on local county property tax rates. Local option retail sales tax rates which must be approved by the voters through refer-

endum are limited to 1/2 of the State rate. At least one-half of the proceeds must be distributed and expended in the same manner as the county property tax for school purposes. Tax levies for debt service are separate from and in addition to other taxes levied for public school support.

The local contribution toward the cost of the Tennessee Foundation Program amounts to approximately 11 percent of the total local tax revenue for public schools. Another 2 percent of the local tax revenue represents the calculated, but not required local share of the foundation program for capital outlay. The remaining 87 percent of local revenue is not equalized by State funds. That is, school districts with relatively more taxpaying ability per pupil have proportionately more resources per pupil from these local funds unequalized by the State (a variation as great as 4:1).

Federal assistance comes from categorical grants made annually under authorizing legislation usually limited to five years and is usually supplemental in nature. These federal assistance programs include: the Vocational Education Program under P.L. 94-482; the Services for the Handicapped Program under P.L. 93-380 and P.L. 94-142; Title I Compensatory Program under P.L. 89-10; Library/Learning Resources, Innovative Programs, etc. under P.L. 93-380; and Aid for Federally Impacted Areas under P.L. 81-874.

A profile of the State, local and federal tax revenues for the public schools, 1977-78, was prepared as a part of this study (See Chart I, page 27). It shows graphically the sources of the revenues for the public schools - State, local and federal. It shows as well the variations among school districts in the amounts per pupil derived from each of these sources. The chart reflects also the disparities (almost 2:1) that exist among school districts in revenues per pupil.

An analysis of data from a selected sample of 28 school districts which enrolled slightly more than one-half the pupils in the public schools in the State (Table 1, page 30) revealed that in 1977-78 only 47.6 percent of the current instructional costs for regular academic programs in kindergarten through grade twelve was provided through the State-local Tennessee Foundation Program. Also, 54.5 percent of the cost of vocational programs and 57.8 percent of the cost of special education programs were provided from the TFP. Overall 49.2 percent of the costs of these programs came from the TFP. The TFP plus supplemental State and federal funds amounted to 49.2 percent of the costs for academic programs, 68.4 percent for vocational programs and 60.7 percent for special (handicapped) education. The TFP combined with supplemental State and federal funds accounted for 51.7 percent of the overall costs of all programs. The percentages of the program costs which came from local (wealth related) tax funds were: for academic programs, 50.8 percent; for vocational programs, 31.6 percent; for special (handicapped) education programs, 39.3 percent; for all programs, 48.3 percent. The analysis of cost data from the 28 school district selected sample (Table 2, page 32) shows the cost per pupil for each TFP program (including a breakdown of special education costs by ten service options). Table 2 reveals that in 1977-78 the average cost per pupil in grades 4-6 was $832 compared with $318 per pupil used that year as the base for allocating costs under the TFP.

THE TENNESSEE FOUNDATION PROGRAM

The procedures incorporated in the Tennessee Foundation Program can and do serve as effective means for delivering State school funds to local school districts. By setting the base per pupil amount and by setting the program

cost differentials the State can and does allocate to local school districts in a precise manner and in a way that implements State policy and helps toward equalizing current instructional program costs.

The TFP procedures allocate: (1) a base amount per pupil ADA in grades 5 and 6; (2) the same base amount per pupil ADA in other academic programs and in vocational programs but weighted to cover cost differentials; (3) an add-on amount per pupil identified and served under special (handicapped) education programs; and (4) the sum of (1) through (3) adjusted by a local district training and experience factor for certificated personnel. No adjustment is made to provide for the additional administrative overhead necessary in small districts. Overall 90 percent of the cost of the TFP is provided by the State and 10 percent by the counties. Each county contributes to the cost of the TFP (for itself and any city or special school districts therein) an amount that is proportionate to its share of the total assessed valuation of taxable property in the State (adjusted in each case for the property equivalent of T.V.A. payments in lieu of taxes).

The Tennessee Foundation Program can be but is only partially used to assure to pupils in all local school districts equal access to State-local resources adequate to meet costs of the instructional program. The base program allocation per pupil is less than one-half the average per pupil cost for this program. Furthermore present cost differentials (together with State supplemental funds) do not provide parity among programs.

Equal Educational Opportunity and the TFP. The progress Tennessee has made in improving the procedures for measuring educational need and cost is a useful and perhaps necessary pre-condition to solving the deeper equity problems

which exist relating to meeting the educational needs of all of Tennessee's children and youth. These problems stem largely from the fact previously mentioned that Tennessee depends upon local tax revenues unequalized by the State for approximately 87 percent of the current (local) tax revenues for the public schools (Chart I, page 27). This heavy dependence upon local tax revenues unequalized by the State results in wide disparities (almost 2:1) in the resources per pupil available to local school districts since local taxpaying ability per child in the least able districts approximates only one-fourth of the taxpaying ability of the most able districts. All programs are affected by this problem. Presently the regular academic programs are most acutely affected. An analysis of the costs and sources of funds for the 28 school system sample referred to above indicated that 50.8 percent of the costs for 1977-78 of regular academic programs was provided from local tax funds unequalized by the State, while 39.3 percent of the costs of special education programs for the handicapped and 31.6 percent of the costs for vocational programs were provided from local tax funds unequalized by the State (Table 1, page 30).

The State is to be commended for the commitments it has made toward fully funding the justifiable costs of vocational education and of education for the handicapped. Considerations of equity and of the importance of academic education in providing basic skills and fundamental knowledge suggest the need for providing also in the TFP for fully funding justifiable costs of academic programs.

Believing the fundamental structure of Tennessee's present TFP formula to be sound the staff of the School Finance Equity Study used a Tennessee School Finance Decision Process (computer simulation model) to examine a number of

options for utilizing the TFP principles in achieving greater equalization in financing the schools. Charts II and III afford a means of comparing the 1978-79 level of equalization and disparity (Chart II, page 28), with a simulated alternative more equalized pattern (Chart III, page 29) involving: (1) a per pupil base program amount of $832, representing the average base expenditure level per pupil in the 28 district selected sample in 1977-78; (2) the sample average program cost differentials; and (3) the State-local share ratio set in such a way that State TFP funds for the second highest expenditure district would have remained constant. Increasing the program base per pupil amount to $832 in 1978-79 in the manner set forth in Chart III would have increased from 426 million dollars to 637 million the amount of funds needed as the State share of the TFP. Moving from 10 percent to 30.5 percent the local share (with the $832 base) would not have required additional local effort since unequalized local effort already existing outside the TFP would have been brought within the TFP and equalized with the additional State funds.

Relative Taxpaying Ability of Counties. Equitably and accurately determining the relative ability of counties to provide a share of the overall local contribution to the cost of the foundation program is an essential element under the Tennessee State-local partnership of support for the public schools. The present measure, which replaced the economic index in use between 1955 and 1977, is based upon each county's proportionate share of the total assessed valuation of taxable property in the State (adjusted in each case for property equivalents of T.V.A. payments in lieu of taxes). Selection in 1977 of the measure based on assessed valuation of property seemed a logical choice since historically property has represented the bulk of the local tax base.

However, the local option sales tax (Chapter 329, 1963 Tennessee Public Acts) has assumed the position of supplying approximately one-third of the local tax funds for the public schools, while property taxes provide almost two-thirds. Property tax and local option sales tax revenue together contribute approximately 97 percent of local government tax revenue for the public schools. The adjusted assessed valuation of taxable property measure does not accurately reflect taxpaying ability of counties derived from the local option sales tax. Furthermore data available from the Division of Property Assessments indicate that property is still not uniformly assessed among counties of the State.

STUDENT TRANSPORTATION SERVICES

The formula enacted in 1977 for allocating to local education agencies (LEA's) State appropriated funds for student transportation represents an improvement over the formula in use prior to that time. However, some problems remain. First, the level of State funding in relation to actual cost of transportation services is lower than for other elements of the State support program. In fact, the share of total cost of pupil transportation provided from State funds has steadily decreased during recent years. For example, in 1964-65 the $10,074,157 allocated to LEA's for pupil transportation services represented 78.9 percent of the $12,770,599 spent by LEA's for these services. In 1970-71 the $11,247,536 distributed to LEA's by the State for pupil transportation services represented 57.7 percent of the $19,502,921 spent by the LEA's for these services. In 1976-77 the $13,900,018 allocated by the State represented only 34.3 percent of the $40,828,970 reported operational costs for student transportation that year. In 1976-77 estimated replacement costs amounted to an additional $5.6 million. Thus on the average local

school districts must rely upon local tax funds unequalized by the State to provide almost two-thirds of the necessary costs for student transportation. This places a heavy burden on the counties with least local ability to pay taxes. An evaluation of the present allocation formula and of variations among the Tennessee school districts in per pupil costs of transportation was made for the Tennessee School Finance Equity Study Project by a nationally recognized authority.[7] This evaluation indicates that while the present State allocation formula correlates with actual costs it does not correlate with the actual cost of student transportation as well as allocations under other alternative formulas considered. The analysis indicates also that in general the present formula if funded on a full cost basis would under allocate to the metropolitan counties and over allocate to counties transporting a small number of pupils.

CAPITAL OUTLAY

Tennessee's program for capital outlay for the public schools was initiated as an "overage" arrangement established in 1947 in the State's first retail sales tax act to provide for disposition of any revenues in excess of official estimates. The present type of equalized distribution was adopted in 1955. Since 1949-50 State capital outlay funds have amounted to approximately one-fifth of the aggregate capital expenditures of LEA's. In addition to the ongoing capital outlay program the General Assembly in 1974 authorized the issuance of general obligation State bonds in the amount of $197,000,000 to be used by the State Board of Education to provide the entire cost of needed

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[7] Roe L. Johns, The Funding of School Transportation in Tennessee, Nashville, The Tennessee School Finance Equity Study, 1978-79.

vocational facilities for vocational-technical centers, comprehensive high schools and vocational training centers. The need of each county including the city or special school districts therein for the facilities was to be established on the basis of surveys by the State Department of Education. This procedure represented a departure from past practice in that for the first time the State is providing all of the capital outlay funds for one particular program area (vocational-technical education programs) and the State Department of Education is charged with conducting county-wide surveys to determine school facility needs in relation to pupil needs for these instructional programs.

To the extent very limited staff resources permit, the State Department of Education provides leadership and consultative services for LEA's for all aspects of school plant planning. Some long range comprehensive surveys of school facility needs are conducted upon invitation of the local boards through the superintendents. The number of such surveys is quite limited, however. Most systems do not have effective up-to-date long range plans to determine school plant needs in relation to instructional program needs of pupils. Without comprehensive surveys and long range planning it is not feasible for this study to evaluate fully the equity of the present support program. Current and emerging problems such as those relating to the need for more energy efficient buildings and for eliminating danger from airborne asbestos fibers only underscore the already urgent need for such planning.

THE STATE-LOCAL TAX SYSTEM

An equitable State school finance system not only equalizes educational opportunities for all pupils enrolled in the public schools, it is supported by a

tax system that is equitable for taxpayers. Tennessee relies largely upon State and local sales taxes and local property taxes for the support of public education. Because Tennessee does not employ a broad-based progressive individual income tax its State-local tax base is highly regressive, relatively unresponsive and inequitable when compared with the average state.

An evaluation of the State-local tax system was made for the Tennessee School Finance Equity Study by nationally recognized authorities associated with the Center for Business and Economic Research, College of Business Administration, The University of Tennessee.[8] The evaluation resulted in proposals for tax reform directed toward: (1) providing adequate revenues that would grow at least as fast as the State's economy; (2) distributing the tax burden (incidence) proportionately among individual taxpayers, properly balancing the taxing responsibilities among the State and the local subdivisions and between individual and business taxpayers; (3) allowing only a minimum of interference with the market allocation of the State's productive resources; and (4) minimizing the costs of administration and compliance.

The findings of this study as well as those of the Tennessee Tax Modernization and Reform Commission which preceded it point to the need for a better balanced and more equitable State-local tax structure.

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[8] Kenneth E. Quindry, et al, The Tennessee State-Local Tax System With Reform Proposals, Nashville, The Tennessee School Finance Equity Study, 1978-79.

The Total Support Program

State and local support supplemented by federal assistance for specific purposes together constitute Tennessee's public school program. In the accompanying chart revenues from State, local and federal programs in 1977-78 are shown. LEA's are ranked in groups in terms of revenue from State and local sources per adjusted WFTEADA*. As this chart indicates most of the disparities in revenues per adjusted WFTEADA occurs in unequalized local funding outside the local share of the TFP.

	Number of Districts	Percent of State WFTEADA
A - State share of TFP	4	2.1
B - Local share of TFP (Equalized)	1	8.9
C - State Guarantee (T.C.A. 49-607)	1	3.3
D - State categorical support (includes: transportation, textbooks, leave for teachers, capital outlay, driver education, and vocational education)	1	13.3
	5	4.9
	3	5.0
	6	2.9
	5	4.5
	7	5.2
	12	5.7
	7	4.5
	8	5.3
	14	4.5
	10	5.0
	14	5.0
	11	5.0
E - Local support unequalized by the State	13	5.8
F - Federal funds	10	4.7
*(WFTEADA + weighted identified & served handicapped) x T and E factor	16	4.4

Source: State Equalization Plan for Financing the Public Schools in Tennessee, Tennessee School Finance Equity Study, October 1979.

CHART I: PROFILE OF REVENUES FOR PUBLIC SCHOOLS, 1977-78

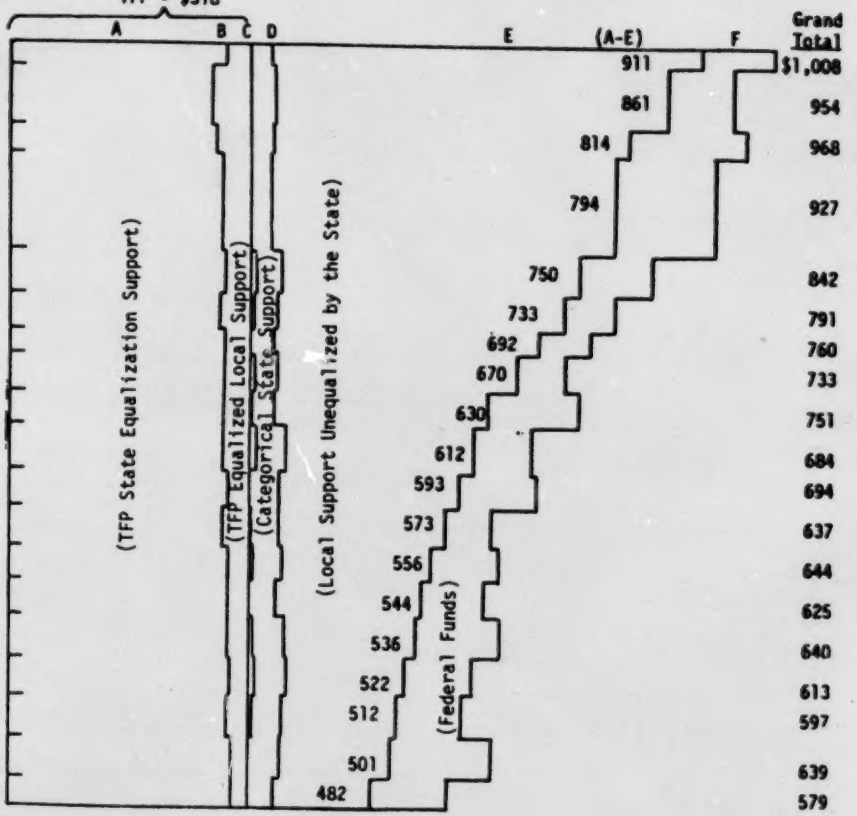
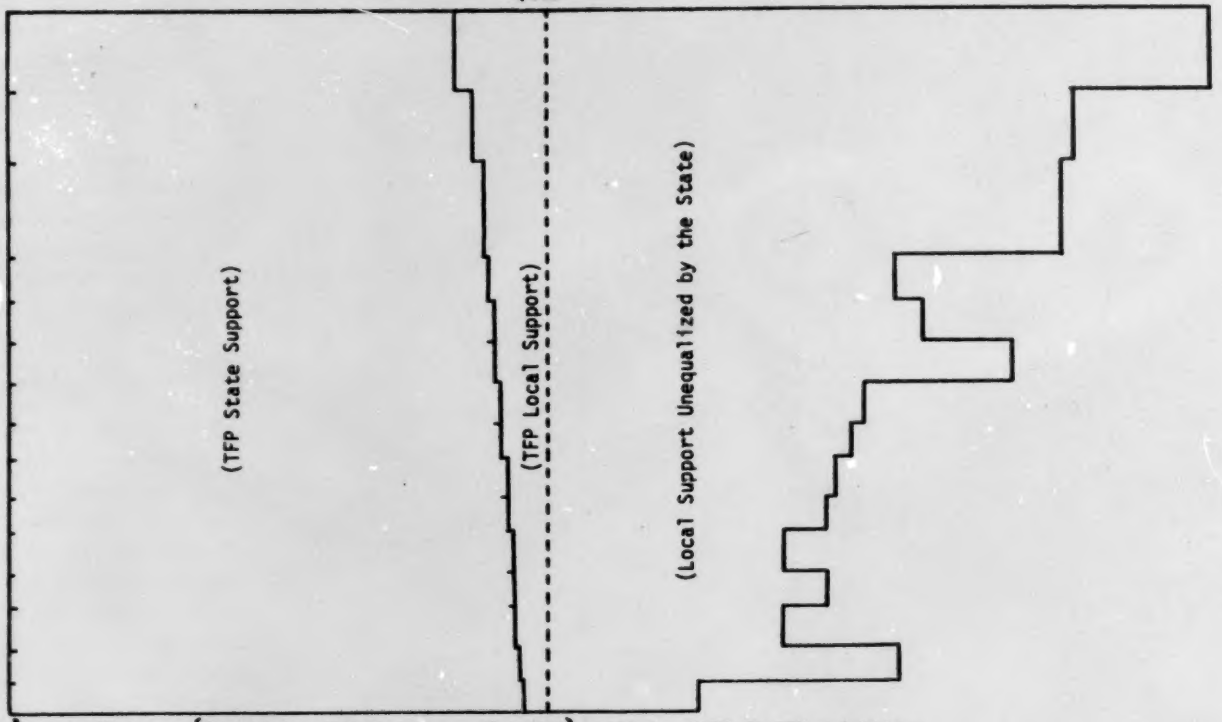


CHART II: PROFILE OF CURRENT INSTRUCTIONAL PROGRAM EXPENDITURES PER WEIGHTED PUPIL, 1978-79[a]



Number of Districts	Percent of WFTEADA[b]	Expenditures Per WFTEADA[b]	Expenditures Per FTEADA[c]
3	11.3	$767	$1,314
7	10.0	681	1,129
2	13.6	672	1,195
12	6.5	565	920
5	5.8	583	934
5	5.9	642	1,083
11	5.2	546	872
5	5.6	535	854
12	5.5	528	847
20	5.2	519	878
16	5.4	494	765
10	5.2	523	867
13	5.4	493	804
17	4.9	568	952
10	4.5	441	740

[a]Base = $342 per [(WFTEADA + WI&S Handicapped) X T&E] utilizing 1978-79 TFP weightings
Local Share = 10% of TFP
State Share Amount = $426,384,367
Local Share Amount = 47,376,041
Unequalized Local Support = $356,896,190

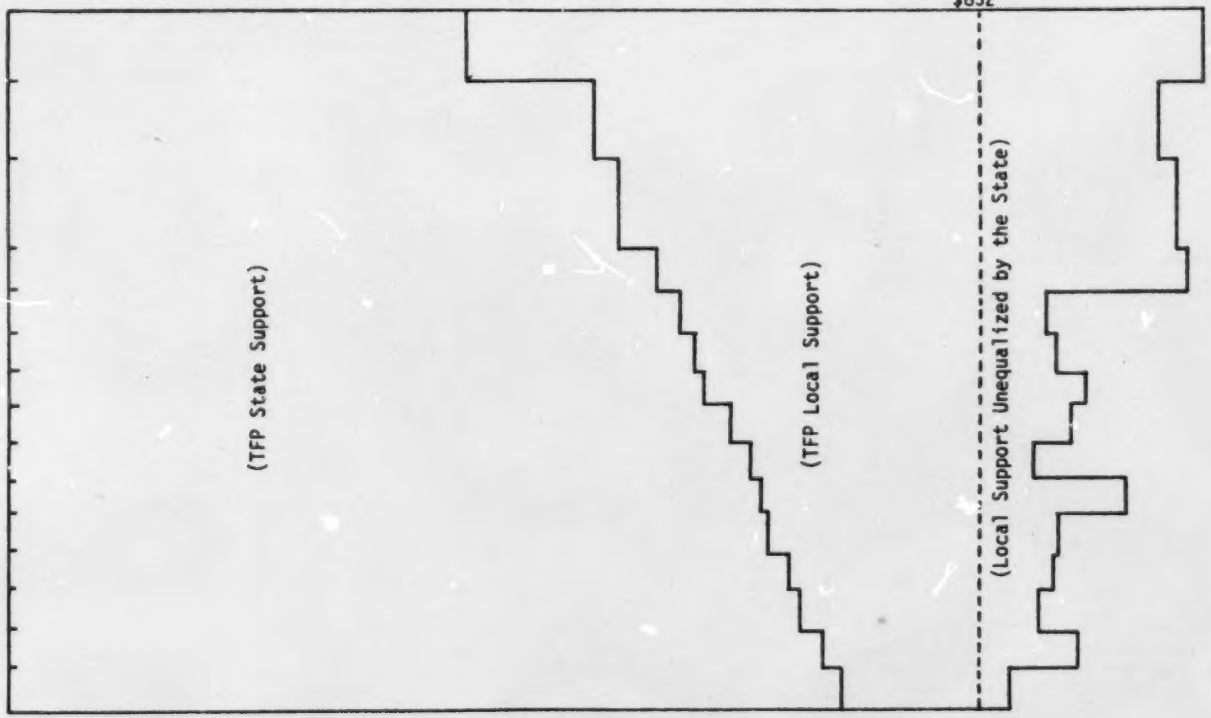
[b](WFTEADA + WI&S) X T&E factor

[c]FTEADA academic + FTEADA vocational

(Adjusted Property Valuations employed as measure of local ability)

CHART III: PROFILE OF SIMULATED CURRENT INSTRUCTIONAL PROGRAM EXPENDITURES PER WEIGHTED PUPIL, 1978-79[a]

(Assuming: a base of $832 per weighted pupil; the 1977-78 cost study weights; a 30.465 local share of TFP; and a 69.535 State share)



Number of Districts	Percent of WFTEADA[b]	Expenditures Per WFTEADA[b]	Expenditures Per FTEADA[c]
2	10.5	$1,022	$1,343
7	10.3	984	1,301
1	13.2	1,001	1,349
2	6 6	1,011	1,343
9	5.7	890	1,149
6	5.2	891	1,158
9	5.1	921	1,216
14	5.1	909	1,163
13	5.4	880	1,160
9	5.3	960	1,264
12	5.5	902	1,206
13	5.2	897	1,174
15	5.4	883	1,150
23	5.5	917	1,203
13	5.9	860	1,151

[a]Base = $832 per (WFTEADA + WI&S Handicapped) utilizing cost study recommended weightings
Local Share = 30.465% of TFP
State Share Amount = $637,383,443
Local Share Amount = 279,253,421
Unequalized Local Support = $124,343,835

[b]WFTEADA + WI&S Handicapped

[c]FTEADA Academic + FTEADA Vocational

(Adjusted Property Valuation and Local Retail Sales employed as measure of local ability)

TABLE 1

Current Instructional Program Costs and Source of Funds, 1977-78

Composite for 28 System Sample

Major Program Area	Number of Pupils	Cost	Tennessee Foundation Program (TFP)[1] Funds	Percent TFP Of Cost	Supplemental State Funds	Percent TFP and Supplemental Of Cost	Percent Local Tax Funds Unequalized By The State
Academic Programs							
K-3	132,126	118,792,917	60,113,558	50.6			
4-6	96,424	77,093,167	36,528,253	47.4			
7-8	71,332	64,858,073	29,726,918	45.0			
9-12	108,001	107,604,900	51,948,667	48.3			
Total Academic	407,883[2]	368,349,057	175,416,143[3]	47.6	5,862,942[4]	49.2	50.8
Vocational Programs Grades 9-12							
Agriculture	1,177	1,617,589	1,143,907	70.7			
Distributive	1,617	2,332,871	1,256,482	53.9			
Health	589	899,516	464,660	51.7			
Home Economics	4,577	6,614,991	3,619,447	54.7			
Office Occupations	2,252	3,749,754	1,742,295	46.5			
Trade & Industrial	8,335	13,708,510	7,799,486	56.9			
Other	20	493,187	14,002	2.8			
Total Vocational	18,567[2]	29,416,418	16,040,279	54.5	4,074,078[5]	68.4	31.6

[1]TFP funds are from both State and Local Sources (State-wide: 90% State - 10% Local). Actual Local Share is proportional to relative local ability.

[2]Pupil count for academic and vocational programs is FTEADA of TFP.

[3]TFP Totals for Academic and Special Education are adjusted. An amount of $2,091,253 for full time students in Special Education was transferred from Academic to Special Education.

[4]Includes Textbooks, Sick Leave, Driver Education and Guarantee Funds.

[5]In addition to (4) above, includes State ($1,174,759) and Federal ($2,614,042) supplemental funds for vocational programs.

TABLE 1 (continued)

Major Program Area	Number of Pupils	Cost	Tennessee Foundation Program (TFP)[1] Funds	Percent TFP Of Cost	Supplemental State Funds	Percent TFP and Supplemental Of Cost	Percent Local Tax Funds Unequalized By The State
Special Education Grades K-12							
SE Option 01	375	36,307	153,751	423.5			
02	707	458,926	284,281	61.9			
03	93	66,682	36,823	55.2			
04	15,017	4,746,981	6,105,684	128.6			
05	33,750	22,277,980	13,677,124	61.4			
06	376	140,424	152,588	108.7			
07	6,676	12,734,293	2,738,823	21.5			
08	3,189	5,798,611	1,313,578	22.7			
09	15	61,438	6,158	10.0			
10	1,984	2,376,177	801,229	33.7			
Total Special Education	62,182[6]	48,697,819	28,171,292[3]	57.8	1,390,965[8]	60.7	39.3
Grand Total	426,450[7]	446,463,294	219,627,714	49.2	11,327,985	51.7	48.3

[6]Pupil count for special Education Options and Total is Identified and Served (I&S).

[7]Total Identified and Served (62,182) not included in Grand Total since these pupils are already counted in FTEADA of Academic Program.

[8]Includes $238,953 State Textbook, Sick Leave and Guarantee Funds and $1,152,012 of Federal Title VI funds.

Source: Table 21, Cost of Educational Programs in Tennessee, Tennessee School Finance Equity Study, 1978-79.

TABLE 2

Cost Indices, 1977-78

(Composite for 28 Sample Districts)

Program Area	FTE Teachers	FTE Pupils	Total Direct Costs	Total Indirect Costs/Pupil	Total Indirect Costs/Teacher	Total Cost	Cost/FTE	Cost Index
K-3	5,615.33	127,085.94	74,752,174	1,158,969	42,881,774	118,792,917	935	1.12
4-6	3,656.20	92,664.36	48,649,106	850,684	27,593,177	77,093,167	832	1.00
7-8	2,984.72	77,966.23	40,043,512	775,800	24,038,761	64,858,073	832	1.00
9-12	4,984.26	96,195.87	67,120,650	795,341	39,688,909	107,604,900	1,119	1.34
SE Option 01	1.25	368.00	27,008	14	9,285	36,307	99	.12
02	21.25	733.00	314,860	173	143,894	458,927	626	.75
03	3.40	14.80	49,259	30	17,393	66,682	4,506	5.42
04	205.40	493.32	3,119,946	4,356	1,622,678	4,746,980	9,623	11.57
05	982.80	9,473.91	14,716,863	53,781	7,507,336	22,277,980	2,352	2.83
06	4.00	-	95,191	-	45,233	140,424	-	-
07	456.50	5,315.00	8,856,895	53,421	3,823,977	12,734,293	2,396	2.88
08	135.00	2,450.72	4,524,000	1,158	1,273,453	5,798,611	2,366	2.84
09	-	-	61,438	-	-	61,438	-	-
10	102.02	190.58	1,564,628	1,759	809,789	2,376,176	12,468	14.99
Agriculture	64.30	1,181.60	1,270,750	4,793	342,047	1,617,590	1,369	1.65
Distributive	81.67	1,613.00	1,620,636	17,065	651,924	2,289,625	1,419	1.71
Health	35.00	594.00	672,229	4,313	222,975	899,517	1,514	1.82
Home Economics	254.70	4,688.90	4,774,590	39,111	1,801,290	6,614,991	1,411	1.70
Office Occupations	137.50	2,327.20	2,677,027	21,364	1,051,363	3,749,754	1,611	1.94
Trade & Indust.	492.40	8,652.40	10,141,458	75,348	3,491,704	13,708,510	1,584	1.90
Other	22.00	342.00	388,145	2,002	146,286	536,433	1,569	1.89

Source: Table 20, Cost of Educational Programs in Tennessee, Tennessee School Finance Equity Study, 1978-79.

CHAPTER V

RECOMMENDATIONS

This study was directed toward analyzing and evaluating Tennessee's program of financial support for the public schools in terms of equity for children and of equity for taxpayers. The recommendations presented below are drawn from the findings reported in the preceding chapter and from the broader findings of the study.

The Tennessee Foundation Program

The State should fund within five years on an equalization basis (State and local) in the foundation program all of the justifiable costs of the educational programs and supportive services which are deemed to be necessary and desirable in order to provide appropriate and equal educational opportunities for all pupils enrolled in the public schools. The State should build upon the equity principles already incorporated in the foundation program by substantially and appropriately reducing the disparities among the school districts in the levels of available financial resources per pupil. This should be accomplished by raising the levels of support per pupil in districts with low taxpaying ability. The basic idea here is to achieve equalization of educational opportunity by leveling up, not by leveling down and merely sharing inadequate resources more equitably. Steps considered essential in order for Tennessee to achieve and maintain acceptable levels of equalization of educational opportunity include: (1) to determine formally within two to three years the educational programs and supportive services which the citizens of the State deem to be necessary and desirable for all children and youth enrolled in the public schools; (2) to

determine the justifiable and appropriate cost differentials for these programs and services; (3) to provide in the TFP funding adequate to cover on an equalization basis all justifiable costs for the State defined adequate programs; and (4) to maintain and update regularly these educational programs and supportive services.

More specifically it is recommended that the State increase the base cost allotment per pupil in the TFP from the present level (approximately $366 in 1979-80) to an amount which together with accurate and appropriate program cost differentials will support the educational programs and supportive services which the General Assembly considers to be adequate to assure equal educational opportunities for all the pupils enrolled in the public schools of the State. Pending formal determination by the State of the costs of the adequate educational program to be funded on an equalization basis, the average costs per pupil for each program during the preceding school year should serve as the standard for planning for the funding of the public schools on an equalization basis. This would involve equalizing with State funds within the TFP unequalized local tax effort now outside the TFP up to the average cost or "adequate" level of financial support. Moving within the TFP local tax effort presently outside the TFP and equalizing it would involve also adjusting the present overall local share of the TFP upward from the present 10 percent to somewhere between 25 and 40 percent. An increase in State funding in the amount needed to equalize local funds brought within the TFP would also be required.

A less desirable alternative to including in the TFP all necessary and desirable costs of the State defined "adequate" program (thereby reducing disparities in resources per pupil among districts) would be for the State to guarantee

(up to the level of the "adequate" program) a uniform yield for tax effort made outside the foundation program. Such an approach would protect taxpayers but would not necessarily assure "adequate" financial resources for children.

The program cost differentials for all programs should reflect as accurately as possible actual needs and costs for each program. Program parity should be improved by increasing funding for programs that are disproportionately low, not by taking amounts presently allocated to any one program to adjust another. When the adequate programs proposed above are fully funded on an equalization basis, the training and experience (T&E) adjustment factor will no longer be needed since the cost differentials can include costs for training and experience in the same manner as all other elements of cost.

Other changes are needed: (1) data suggest the need to provide in the TFP an appropriate cost differential to reflect high overhead administrative costs in small counties; (2) the financial resources required to fund the present and any future mandated salary supplements at the local level should be equalized by the State, (this would best be done by including amounts equal to such supplements in the basic State salary schedule and including the funding in the TFP under the base program costs and cost differentials); and (3) it is recommended also that the costs for textbooks and sick leave for teachers be included within the TFP along with all other necessary instructional program costs.

It should be noted also that an effective program cost accounting system at the school and school district levels is a fundamental requirement: to determine accurately the fiscal requirements for meeting educational program needs; to allocate the necessary resources; to monitor program implementation; to

evaluate the results; and to plan improvements. The Program Financial Accounting project now under way in the State Department of Education and its installation should be completed and implemented with all deliberate speed.

The "guarantee" provision in the present Tennessee Foundation Program has the effect of providing some LEA's additional State funds beyond the amount per weighted pupil justified by the measures of need included in the equalization program for pupils in other school districts. Such "guarantees" are often helpful to individual districts in easing the transition from one procedure for allocating funds to another. If allowed to continue over a long period of time, however, they result in the provision of unjustified benefits to pupils in some school districts. This guarantee and all similar ones should be phased out preferably within three years from the time of enactment.

Measurement of the Relative Taxpaying Ability of Counties

A more accurate measure of the relative taxpaying ability of the counties should be adopted. The following changes should be made.

1. Correct the present county adjusted property valuations with sales ratios determined through studies of the ratio of bona fide sales of property to the assessments for the preceding three years, determine each county's percentage of the State total and double this.
2. Determine each county's percentage of State sales tax collections for the preceding three years.
3. Combine the amounts determined in one (1.) and two (2.) above and divide the sum by three. For any county the resulting percentage would be that county's percentage of relative taxpaying ability.

Pupil Transportation

Pupil transportation is vital to the equalization of educational opportunity and should be funded as equitably and as adequately as other parts of the State equalization program. In addition to increased State funding, the State should make further improvements in the procedure for allocating State funds for pupil transportation services by adopting one of the two formulas for allocating State school transportation funds proposed in the school transportation study mentioned above. The guarantee that each county must be provided State allocations for student transportation services of not less than one hundred percent (100%) of the amount received in 1976-77 should be phased out entirely within a period of three years. If measures of need and cost are inadequate or inequitable, they should be improved directly; they cannot be corrected appropriately through guarantee clauses.

Capital Outlay

As a basis for planning and implementing an improved school facilities support program the State should establish and use a formal planning procedure for determining and regularly updating present and projected school facility needs for the educational programs and supportive services which the State determines are necessary and desirable to provide equal educational opportunity for the pupils enrolled in the public schools. Such a procedure might be adapted from the one used to determine vocational facility needs. As a minimum the procedure should be:

1. To develop and implement county-wide and district surveys of school facility needs in relation to educational program needs throughout the State and to keep the surveys current on an annual basis.

2. To establish, maintain and utilize a complete computerized inventory of school plant facilities for each school district in the State.

The guarantee provision in the capital outlay equalization program has the effect of providing for thirty-two (32) counties additional amounts in State capital outlay funds ranging from eight cents ($.08) per pupil in Smith County to $45.28 per pupil in Pickett County. These amounts are in addition to the full fair share of State capital outlay funds received by each county under the State capital outlay equalization program. Additional funds under the guarantee provision date back to 1950-51 and cannot be justified in terms of equity. This guarantee should be removed.

The State-Local Tax System

In order to achieve a more equitable State-local tax system appropriately balanced between sales, property and income taxes and in order to have a tax base productive enough to fund fully in the foundation program on an equalization basis the educational opportunities which the citizens of the State deem adequate to meet the needs of pupils in the public schools of the State - it is recommended that the State: (1) adopt a broad based individual income tax, and (2) give careful consideration to making the changes in the present consumer and property based tax system proposed in the tax study conducted as a part of this project. The purpose would be to create a tax system that will bear equally on all taxpayers including business firms.

CHAPTER VI

SUPPORTING STUDIES

The following studies were conducted during 1978 and 1979 in reviewing the equity and adequacy of Tennessee's public school finance program for grades kindergarten through twelve. The studies as a group contain findings and recommendations which support the summary of findings and recommendations presented in Chapters IV and V.

Access to Educational Resources in Tennessee by Frank H. Yates, Jr. and Benjamin H. Brown, Jr. The Tennessee School Finance Equity Study, Tennessee Department of Education, Nashville, 1978-79.

This study is an analysis of existing disparities in the equity, adequacy and accessibility of programs of education among local education agencies in Tennessee. Findings indicate that a significant disparity exists in the level of current expenditure per pupil among the various school systems. There is a strong relationship between the level of total current expenditure per pupil and the level of current expenditure per pupil from unequalized local funds. The ratio between the expenditure levels per pupil of the high and low revenue districts approximates two to one. When only local funds are considered, the disparity is approximately ten to one. The additional cost per pupil in the high expenditure districts is related to providing additional services or programs usually associated with higher quality. Students in the high expenditure districts have the following advantages: a greater variety of subjects in grades 9-12; lower pupil-teacher ratios; higher levels of

training and experience of teachers; more guidance, psychological and social services; greater numbers of librarians; higher expenditures for instructional materials and supplies; slightly higher expenditures for textbooks; and much greater expenditures for maintenance and operation of school plants.

Cost of Educational Programs in Tennessee by Nelda H. Cambron and James A. Hale with Kern Alexander, Study Coordinator, University of Florida. Prepared for Tennessee School Finance Equity Study, Tennessee Department of Education, Nashville, 1978-79.

This study was directed toward measuring the relative costs of selected grade levels and education programs in 1976-77 and 1977-78 for kindergarten through grade twelve in a selected sample of twenty-eight public school districts in Tennessee. Analysis of data indicate: (1) the base support level of the Tennessee Foundation Program is far below the average base program expenditure for the twenty-eight districts; (2) the distribution of expenditures among the sample districts (approximately 2:1) is wealth related; and (3) program parity should be improved at the State level.

Fiscal Need Factors in Relation to Financing Public Education in Urban, Suburban, and Rural School Systems by William P. McLure, College of Education, University of Illinois. Prepared for Tennessee School Finance Equity Study, Tennessee Department of Education, Nashville, 1978-79.

This study is limited to the critical financial factors that enter into the measure of educational need on the expenditure side in relation to current operating costs. The author states that the Tennessee Foundation Program's approach to financing the public schools is basically sound and involves

principles of equity. The need is for modification and fine tuning, not for fundamental reconstruction. Some suggestions included are: (1) program cost accounting should be developed and implemented; (2) professional study and growth factor for teachers would be desirable; (3) present pupil weightings should be reexamined; (4) a sparsity weighting for small schools where justified may be needed; (5) impact of declining enrollments should be examined closely for possible need of temporary factors for sudden adjustments from one year to the next; (6) State and federal categorical funds for non-instructional programs that cannot be prorated feasibly to instructional programs should be continued on a separate basis; and (7) federal special program funds should be channeled to the respective programs and treated as a contribution to the extra costs.

Local Government Ability in Taxation and Educational Finance by William C. Goolsby and C. Warren Neel, Center for Business and Economic Research, University of Tennessee, Knoxville. Prepared for the Tennessee School Finance Equity Study, Tennessee Department of Education, Nashville, 1978-79.

An alternative method of determining the State contribution to the cost of education in local school districts is proposed in this study. This alternative involves an effort-ability index based on the effort expended by local government in relation to their ability to support programs of public education. A formula using the effort-ability index for each county would be applied to a State base amount per pupil to determine the State-local contribution per pupil for each county.

The Fiscal Capacity and Effort of Tennessee Counties to Support Programs of Public Education by Benjamin H. Brown, Jr. The Tennessee School Finance Equity Study, Tennessee Department of Education, Nashville, 1978-79.

This study presents alternative measures of county fiscal capacity which would promote taxpayer equity and student equity. The present measure in the foundation program which is based on the relative property value of each county (adjusted for property equivalents of T.V.A. payments) does not reflect the heavy reliance of local governments on the local option sales tax for the support of the public schools. Further, the present measure of fiscal capacity does not express valid county percentages of State property valuations unless assessments are uniform. These alternative measures are proposed: (1) the present measure adjusted on the basis of sales ratios; (2) the present measure of property combined with local retail sales tax ability; and (3) county property valuations adjusted by sales ratio studies combined with local retail sales tax wealth.

The Funding of School Transportation in Tennessee by Roe L. Johns, The Educational Finance and Management Institute, Inc., Gainesville, Florida. Prepared for the Tennessee School Finance Equity Study, Tennessee Department of Education, Nashville, 1978-79.

The purpose of this study was to analyze school transportation costs and State funding of school transportation in Tennessee and to provide an improved formula for the allocation of State funds for school transportation. Two formulas are proposed, either of which, the author states, would be more equitable than the present formula. It is recommended that density of transported pupils per mile of bus route one way be used as the measure of density and that a per pupil allocation in either formula be based on either a 175 day or 180 day term. Further, the recommendation is made that school transportation be funded as adequately as other parts of the foundation program.

The Tennessee State-Local Tax System With Reform Proposals by Kenneth E. Quindry, Arthur C. Bayer, William C. Goolsby, C. Warren Neel, Niles Shoening, Center for Business and Economic Research, University of Tennessee, Knoxville. Prepared for the Tennessee School Finance Equity Study, Tennessee Department of Education, Nashville, 1978-79.

This study presents an analysis of the State-local tax system in terms of (1) equity, (2) efficiency, (3) adequacy and (4) economic effect. The evaluation resulted in proposals for tax reform directed toward: (1) providing adequate revenues that would grow at least as fast as the State's economy; (2) distributing the tax burden (incidence) proportionately among individual taxpayers, properly balancing the taxing responsibilities among the State and the local subdivisions and between individual and business taxpayers; (3) allowing only a minimum of interference with the market allocation of the State's productive resources; and (4) minimizing the costs of administration and compliance.

State Equalization Plan for Financing the Public Schools in Tennessee by the Tennessee School Finance Equity Study Project, James E. Gibbs, Director. Tennessee Department of Education, Nashville, August 1978; Revised Edition, October 1979.

This equalization plan was prepared by the Director of the Tennessee School Finance Equity Study Project with the assistance of the project staff and by drawing upon the expertise of State Department of Education staff and outside consultants. The plan description consists of: (1) a description of Tennessee's current public school finance program; (2) recommendations for change in the existing State public school finance program; (3) a description of the

conformance of the recommended changes to the equity guidelines developed by the U.S. Commissioner of Education pursuant to Section 842 of Public Law 93-380; and (4) a brief summary report of major activities, procedures, and products related to development of the State Equalization Plan.